



Shared Services:

Improved Efficiencies in Uncertain
Economic Times

September 2009



45 O'Connor Street, Suite 1150 • Ottawa, ON • Canada • K1P 1A4
Tel: 613.745.2282 • Fax: 613.745.4990 • www.branhamgroup.com

Overview

Healthcare providers in Canada are faced with several challenges as they try to balance tight budgets during an economic recession with the need to enhance patient care. With the Government slated to run a budget deficit of \$64 billion¹ over two years, the availability of funds for healthcare will be further squeezed. Under the federated system of healthcare, the funds allocated by provincial healthcare authorities come with stringent riders of how they are to be spent. Many of these are tied to direct patient care initiatives, and have given rise to a common practice across hospitals to not scale back direct patient care services as far as possible. This creates pressure on healthcare establishments to enhance efficiencies and reduce costs so that monies saved can be reallocated to meet the growing demand for quality patient care. The following sections describe how adopting a Shared Services strategy may help healthcare organizations address these challenges.

What are Shared Services

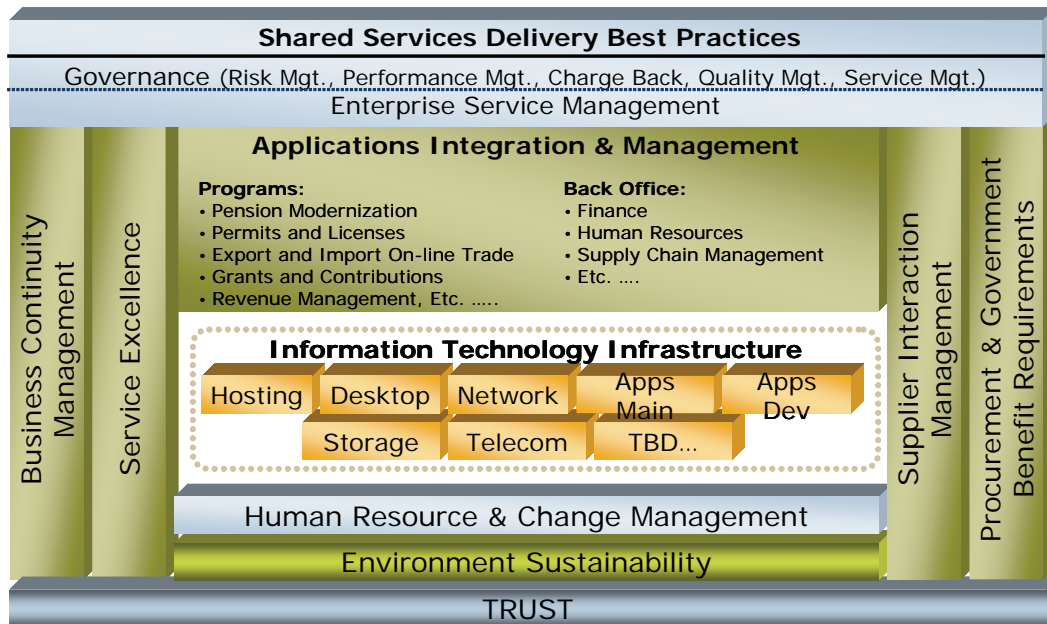
Shared Services is the provision of a common service (or set of services), to an entire organization comprised of multiple business units, or multiple organizations, by a leveraged operating entity.

The operating entity can be either an internal organization or a 3rd party services provider or a combination of both. In the medical parlance, Shared Services can include the administrative, technical, or other support service functions that are common to two or more health organizations and used jointly or cooperatively by them. Thus the cost of the services is shared, with services provided by a leveraged delivery group. The key is the idea of 'sharing' support services within an organization or group of organizations.

Shared Services is aimed at centralizing and streamlining an organization's functions so that they can be delivered to the

organization as effectively and efficiently as possible. The most commonly centralized are back office functions such as HR, Finance and Supply Chain, but Shared Services can also be applied to front and middle offices. In healthcare in Canada, the focus has been on consolidating back office functions.

In the concept of Shared Services, organizations leverage a "defined" common set of support processes on a common solution platform. By illustration, this could be a defined set of Finance and Accounting business processes, provided by a leveraged delivery team using one consistent ERP implementation. Provision of the services can be insourced (internal) or outsourced (3rd party provider).



¹ CBC, Government Will Run \$34 billion Deficit
<http://www.cbc.ca/money/story/2009/01/22/deficitoutlook.htm>

Key Challenges in the Canadian Healthcare Market

The Canadian healthcare industry has some unique attributes.

Regional Health Authorities

The federated nature of the Canadian healthcare industry places fund allocation and control in the hands of the provincial governments and regional health authorities. To gain economies of scale and to better align decision making with regional needs and priorities, most provinces have regionalized the delivery of healthcare services. Provinces and health organizations have been moving toward establishing shared services organizations both internally through entities they already own, and externally with the support of 3rd party service providers. These shared services organizations often cross regional boundaries. There are publicly owned shared services organizations such as Plexxus and the Health Authority Shared Services Organization (HASSO), and entities like Shared Services West that have been created by healthcare providers but function independently of them. The broader their mandate, the more likely they will need external providers for expertise in specialty areas. The emergence of these regional healthcare authorities is accompanied by increasing complexity of related initiatives, and more sophisticated requirements.

Budget Constraints

While budgets remain tight, healthcare managers and providers are under pressure not to cut back on direct patient care. The global economic slowdown amplifies these constraints. As a result, the need for cost rationalization and efficiencies implemented in parts of the organization other than direct patient care has assumed added urgency. Further, the demands of managing large complex health organizations in the rapidly changing health environment, is placing increasing pressures on back office services to provide meaningful and timely management information, both to support daily operations, and strategic planning. Concurrently, with the ongoing pressures of funding health service delivery, most organizations are challenged with making the necessary investments in back office services.

Decentralized Systems

Due to the historically localized nature of healthcare, the associated informatics and business process environments (both on a provincial and national basis) are highly diverse and have been relatively fragmented. Over the past 5 years there has been a migration towards a more integrated and consistent informatics environment (largely due to regionalization and the impact of Canada Health Infoway), however significant diversity remains. This makes data integration and implementing common systems a

major challenge. Also, the need to follow an Evergreen Strategy that requires continued maintenance and upgrades of diverse systems is increasing IT costs to organizations. These factors also increase the cost and transformation effort associated with implementing a shared services model.

Unionized Environment

The unionized healthcare sector in Canada introduces an additional layer of complexity in the implementation of Shared Services. The potential restructuring and realignment of roles and responsibilities that often result from a Shared Services initiative pose significant organizational change management challenges in the context of existing agreements with unions. It is important to recognize that Unions are key stakeholders in Shared Services initiatives.

Benefits of Using Shared Services

Simply put, Shared Services help reduce costs and enhance efficiencies through the implementation of a consistent set of best practices and business processes across the organization. In general, the critical mass created by a Shared Services organization enables the following benefits:

- » **Increased business agility and customer responsiveness** by responding quickly to changing conditions and demands on an organization.
- » **Enhanced ability to provide operational and management support** by leveraging expert resources and tools.
- » **Resource and process optimization** by centralizing implementation and control. This also makes it easier to roll out new solutions to client organizations.
- » **Reduced business risk** by implementing uniform policies, such as those focused on security and business continuity across services.
- » **Reduced organizational complexity** by focusing on fewer systems and eliminating redundancy in the organization.
- » **Improved depth and training of resources** based on a dedicated team of specialized resources leveraging a consistent set of tools and processes.
- » **Changed IT cost structures** by reducing maintenance costs through the use of fewer larger systems.
- » **Increased supply chain efficiencies** from consolidated supplier and vendor management.

30 percent of US Fortune 500 companies have implemented a shared service centre, and are reporting cost savings in their general accounting functions of up to 46 percent²

Given their unique industry conditions, healthcare organizations in Canada are ideally suited for Shared Services. Below are some specific areas where shared services can be implemented in healthcare.

Procurement and Supply Chain Management

Organizations can leverage coordinated logistics, purchasing, contract management and equipment procurement across multiple sites to provide savings through collective negotiations and economies of scale, and facilitate the reallocation of resources to direct patient care. Over the past few years, procurement has been a key area for implementing shared services in Canadian healthcare.

Back Office Operations

These systems support the operation of a healthcare organization including a broad range of activities associated with capturing and tracking non-clinical information and adhering to the legislation and regulations governing healthcare services delivery. Activities that are usually provided as Shared Services include payroll, finance, and HR, which reduce redundancies and integrate information. Many provinces have made the switch from a decentralized model of Back Office Services delivery within hospitals, to a more centralized model of delivery across health regions and

even provincially. This has been driven by a need to integrate with provincial systems. For example, the Saskatchewan Association of Health Organizations (SAHO) has the mandate to deliver coordinated Back Office Services to health authorities within Saskatchewan.

Data Integration

The integration of data at the clinical side continues to be driven by rationalization and EHR initiatives. However, the integration of data between the clinical side and back office falls short, and it is difficult to get a comprehensive, singular view into the data on both sides at the same time. By agreeing to work within a Shared Services framework, a deeper level of functioning can be achieved which can drive sophisticated tools and solutions to the problems of data interchange. Further, integration of the back office with the clinical side significantly enhances both operational and management reporting.

² English Institute of Chartered Accountants

Case Studies

Bank of Canada

As Canada's central bank, the Bank of Canada ensures a stable financial system by keeping inflation low and predictable, managing Canada's Retail Debt Program (RDP), and acting as the fiscal agent to the Government of Canada. Over the years, the RDP expanded to include Canada Savings Bonds, retirement savings plans and payroll savings programs. Bank of Canada found itself supporting a volume increase beyond its current system capacity. Increased complexity of transactions was also leading to increased calls and questions from customers. Bank of Canada thus was challenged to manage the growing and complex RDP business without compromising service levels.

As part of a shared service contract, HP Enterprise Services (formerly EDS) assumed responsibility for all aspects of the retail debt operations on behalf of Bank of Canada. HP Enterprise Services also took responsibility for the design, development, implementation, and operation of all software and hardware used by the program. About 400 Bank of Canada staff were transitioned to HP Enterprise Services to ensure a smooth transformation, new self-service capabilities were introduced for customers, several enhancements were introduced to service delivery tracking and measurements, and a rigorous quality control program was put in place.

As a result of the shared service initiative, Bank of Canada realized a 30% cost savings of \$152 million, while maintaining consistent levels of customer service. 58% of all RDP requests are now completed through self-service channels and there has been a more than 60% decrease in customer complaints.

British Columbia Revenue Management Services

In 2004, British Columbia's Ministry of Provincial Revenue launched the Revenue Management Project, an initiative to create an integrated and streamlined business and systems environment focused on the consolidation of non-tax revenue management functions across the government. At that point in time, the province had over 40 receivables systems across ministries. Multiple contracts from different ministries resulted in confusion from inconsistencies in enforcement and compliance practices. As a result, receivables, bad debt expenses and write-offs were increasing – e.g., receivables (over 90 days) exceeded \$800 million (CAD).

HP Enterprise Services helped to create a shared services operation that provided an integrated range of revenue services for tax and non-tax revenue collection, purchase of healthcare services, justices, fines, immigration department, grants, payments for ambulance services, and educational grants. HP Enterprise Services worked with the clients to design an effective delivery model. About 200 staff were transferred to HP Enterprise Services. Effective change management enabled staff who had been released due to process efficiency improvements to be retrained and redeployed.

The project resulted in debt collection increasing by 50% in the first 3 months of the project, with over 300% more debt recovery in the first 8 months. Ultimately, the project increased revenue and reduced costs, and allowed some of the increased revenue to be reinvested to deliver IT modernization for sustainable improvements.

Data Centres

As healthcare organizations move towards a paperless model, they are increasingly looking at reliable and cost effective means of storing and seamlessly accessing vast amounts of data. The need for a rationalized and consistent set of applications, standardized SLAs, and technical support is driving the need for data centres that deliver a mosaic of services to hospital clients as compared to the current norm, where each facility has its own independent footprint within the data centre. Such data centres would provide common applications and monitoring tools in a multi-tenancy model within a Shared Services context. The market need for such a model is expected to mature over the next 5 years.

Benefits of Using a Shared Services Partner

Shared Services is a complex strategy initiative that healthcare organizations need to consider not only to achieve cost reductions, but also to drive efficiencies and affect lasting organizational transformation. Therefore, it is critical that the Shared Services be implemented in a well planned and structured manner. An external partner with experience in implementing shared services can bring several key benefits.

Expertise

The capacity and expertise within an organization for executing a complex Shared Services plan is limited, largely because such expertise is not part of the daily mandate of Business or IT departments. Further, these organizations often lack the expertise to tackle the complexity that arises from the many challenges in designing services for diverse administrative and business functions with different models. There are a number of specialized skills needed to properly implement Shared Services, like business process re-engineering, system design, change management, and integration management.

The delivery of Back Office Services has been less than satisfactory from both the provincial and regional perspectives. Many provinces report lacking efficiencies and quality, and many back offices are not integrated with clinical systems. While some have a vision of an ideal system, limited resources and funding prevent these from being realized. Overall, citing dynamic environmental factors and uncertainty, not many have established a clear plan or measurable objectives for improvements to their systems.³

Organizational Change

Since Shared Services result in significant transformation within an organization, managing the change becomes critical in ensuring success. Engaging a services provider with extensive experience in organizational transformation, can dramatically increase the chances of getting it right the first time, by integrating experienced resources at the operational level and building momentum for the change.

Risk Mitigation

A Shared Services project involves significant risks, including project, operational and organizational change risks. All these have financial and reputational impacts. More often than not, healthcare organizations are not geared to manage and mitigate these risks. The correct partner can bring risk management expertise to the table, thus reducing the organization's overall risk exposure and increasing the chances of a successful implementation.

³ Branham Group, E-Health in Canada, 2007



About HP

HP, the world's largest technology company, simplifies the technology experience for consumers and businesses with a portfolio that spans printing, personal computing, software, services and IT infrastructure.

A core business unit within HP, HP Enterprise Services, delivers one of the industry's broadest portfolios of infrastructure technology, applications and business process outsourcing services. It has extensive experience implementing Shared Service projects for Fortune 500 companies, covering areas like planning and assessment, setting up shared services centres and networks, optimizing existing shared services centres, organizational change management, and integrating data centres into the organizational strategy.

More information about HP (NYSE: HPQ) is available at <http://www.hp.com/>.

HP Enterprise Services Headquarters

5400 Legacy Drive
Plano, Texas
75024
USA
1-800-566-9337
www.eds.com

Canada Office

33 Yonge Street
Toronto, Ontario
M5E 1G4
1-800-814-9038
1-416-814-4500

About Branham Group

Branham Group is a leading industry analyst and strategic consulting firm servicing the global information technology marketplace. Branham Group assists information technology companies and related institutions in achieving market success through its custom consulting services (Planning, Marketing and Partnering), and through its multi-client research subscription programs (eHealth, Outsourcing, Green IT and Wireless). Branham also produces an annual listing of the top information technology companies in Canada (www.branham300.com), tracks the Canadian Outsourcing industry (www.branhamoutsourcing.com) and monitors over 450 eHealth vendors.

For more information regarding Branham Group, please visit www.branhamgroup.com.

Branham Group Inc.

45 O'Connor Street, Suite 1150
Ottawa, ON
Canada • K1P 1A4
Tel: 613.745.2282
Fax: 613.745.4990
www.branhamgroup.com